



2012 North Dakota Development Fund **Annual Report**



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“The North Dakota Development Fund is a valuable financing tool for North Dakota businesses, providing a strong return on investment for taxpayers and contributing significantly to job creation. As we continue to grow our economy and create economic opportunities for our citizens, it is important that we provide the financing support for start-up or expansion projects in our state.”

– Jack Dalrymple, Governor



Jack Dalrymple
Governor



Al Anderson
Commissioner
ND Department of Commerce

North Dakota Development Fund Board Members

The Governor appoints an eight-member Board of Directors that oversees the North Dakota Development Fund. Each member represents a different business sector from the state.

Richard McKennett, Chairman | Williston
Member-at-Large

Bob McNeill, Vice-Chairman | Dickinson
Private Sector

John Erickson | Grand Forks
Industrial Technology and Research Sector

Rob Gayton | Mandan
Native American Sector

Vacant
Rural Sector

Darcy Volk | Bismarck
Exported Services Sector

Terri Zimmerman | Fargo
Finance Sector

Al Anderson | Bismarck
Commissioner of ND Department of Commerce
Agency Sector

The Following Development Fund Staff Facilitates This Process

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About the North Dakota Development Fund

The North Dakota Development Fund was created through legislation in 1991 as an economic development tool. It provides flexible gap financing through debt and equity investments for new or expanding North Dakota primary sector businesses.

The Development Fund makes investments of up to \$300,000. The Board of Directors may adjust the limit when deemed appropriate. In general, the following criteria apply to Development Fund investments:

- The entrepreneur must have a realistic financial commitment at stake. Usually, principals are required to have a minimum of 15 percent equity in the project.
- Refinancing of debt is not eligible.
- Principal shareholders with 20 percent or greater ownership are generally required to guarantee the debt. Other shareholders may also be required to guarantee.
- The Development Fund will not participate in more than 50 percent of a project's capitalization needs.
- Financing is available to any primary sector business project with the exception of production agriculture.
- Primary sector includes individuals and businesses which, through the employment of knowledge or labor, add value to a product, process or service which results in the creation of new wealth. Primary sector includes tourism and specific types of investor-owned agriculture, and is typically businesses such as manufacturers, food processors or export service companies. Investor-owned agriculture includes livestock feeding or milking operations, or other value-added agriculture located apart from an individual farm operation that is professionally managed and has employees.

Loan and equity programs managed by the North Dakota Development Fund include:

- North Dakota Development Fund
- Regional Rural Revolving Loan Fund
- Rural Incentive Growth Loan Program
- Small Business Technology Program
- Child Care Loan Program
- New Venture Capital Program
- Entrepreneur Loan Program
- Entrepreneurial Center Loan Program

Please contact the North Dakota Development Fund or visit www.NDDevelopmentFund.com for additional information on the programs listed above.

Introduction



Dean Reese, CEO
ND Development Fund

The Development Fund invested \$7,114,904 in 28 primary sector and child care businesses from July 1, 2011 to June 30, 2012. The Development Fund has provided gap financing in which investments, since inception, have reached \$97 million.

With the Development Fund's dollars invested, there has been \$107,286,856 leveraged from other financing institutions resulting in a \$15.08 to 1 ratio - for every Development Fund dollar invested, \$15.08 was invested from other sources.

The investments made by the Development Fund in 2011 to 2012 contributed to the projected creation of 152 jobs in the primary sector.

The Development Fund reported an estimated June 30, 2012 fiscal year-end operating income of \$414,225 before bad debt expense, as compared to \$498,877 for the fiscal year-end 2011. The decrease in income is attributable to a decrease in interest income on loans and an increase in bad debt expense. The Development Fund saw an increase in general and administrative expenses of (\$22,923) from 2011 to 2012. The Development Fund continues to pay all costs of operating the fund including salaries and benefits. The increase in administrative expense was attributable to an increase in salary expense and repo expense from 2011 to 2012. The cash flow generated from principal and interest collections remains strong at \$6.3 million. The Development Fund continues to be a "revolving" loan fund as it has collected \$9.8 million the past two years, which in turn can be used for future loan and equity investments.

Net loss before nonoperating revenues (expense) declined by \$218,614 from (\$16,011) in 2011 to (\$234,625) in 2012. The decline in the net loss was due mainly to the decrease in interest income and an increased allocation to bad debt expense for the year.

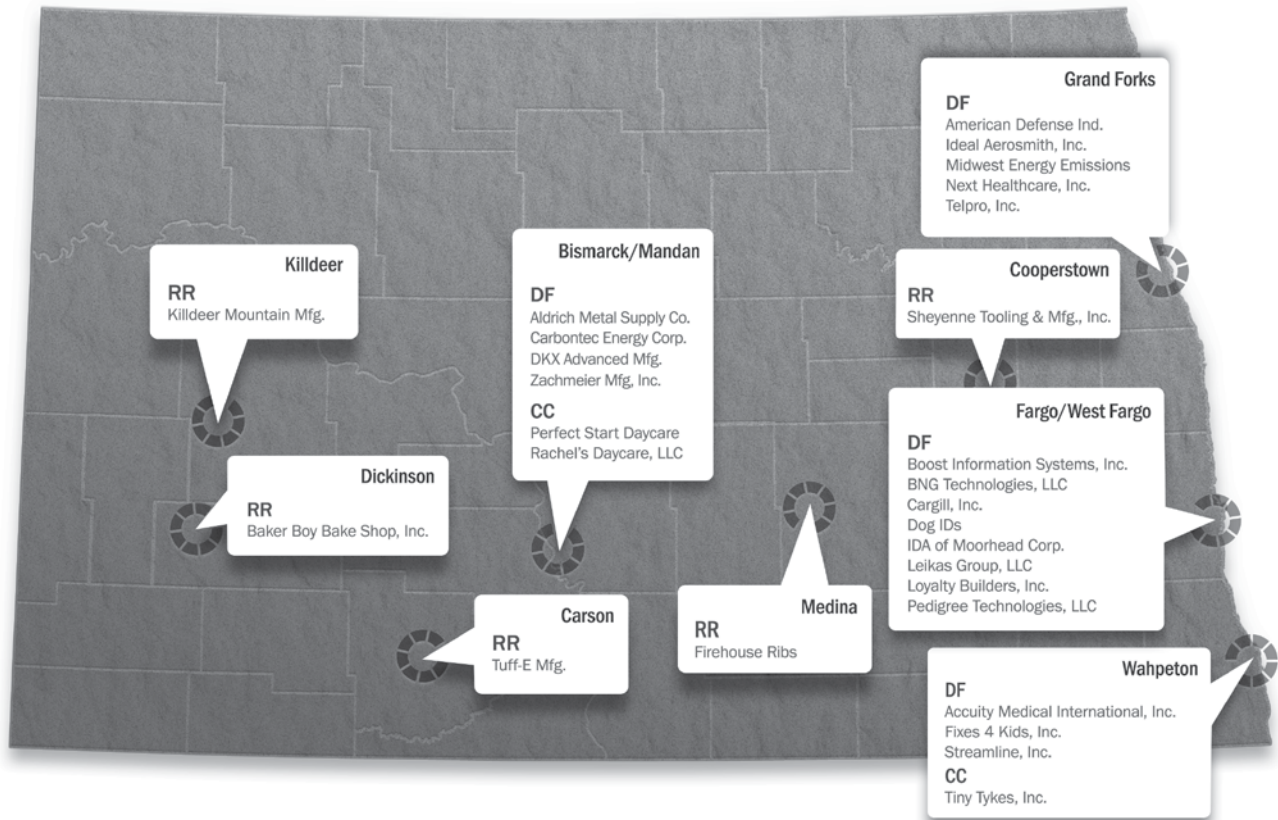
Since the inception of the Development Fund, it has invested \$97 million in 519 companies with over \$30.8 million invested in rural communities. The investments made by the Development Fund have contributed to the projected creation of 10,389 primary sector jobs. The Development Fund helped 12 start-up businesses begin operations in North Dakota in 2011 to 2012. Of the 12 start-up businesses, five were in rural communities.

The economic activity continued to be strong in North Dakota in 2012 as compared to the national economy. In providing flexible financing, the Development Fund helped primary sector businesses start-up or expand, which in turn created new jobs and generated new revenues. This report includes highlights of 2012 along with the accompanying financial statements.

Dean Reese, CEO
North Dakota Development Fund

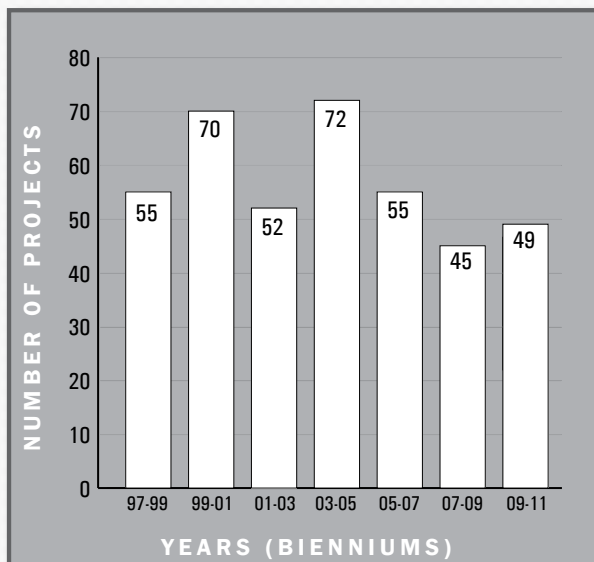
*“The investments made by the
Development Fund
in 2011 to 2012 contributed to
the projected creation of
152 jobs in the primary sector.”*

Development Fund Investment Locations from July 1, 2011 to June 30, 2012



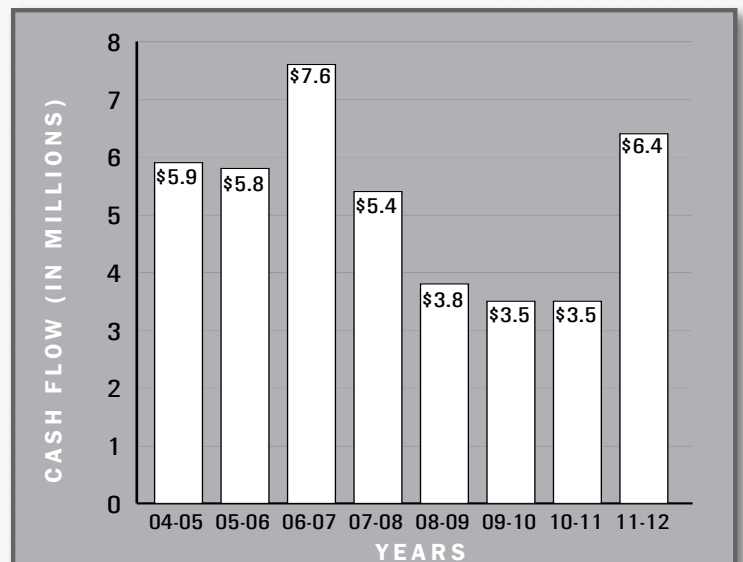
DF– Development Fund Projects | RR – Regional Rural Revolving Loan Fund Projects | CC – Child Care Loans

Growth in Development Fund Projects



The Development Fund invested in 28 projects from 2011-12. The number of projects funded to date are on track to meet or exceed the number of projects from the last biennium (2009-2011).

Development Fund Cash Flow (Millions)



The Development Fund collected \$6.4 million in 2011-12, averaging \$5.2 million in collections in the past eight years. The Development Fund continues to revolve and the funds collected continue to be used to fund future loan and equity investments in the state.

**28 Businesses Benefited from North Dakota Development Fund
Investments from July 1, 2011 to June 30, 2012**

DEVELOPMENT FUND

Aldrich Metal Supply Company	Bismarck	\$ 137,500
Carbontec Energy Corporation	Bismarck	\$ 333,333
DKX Advanced Manufacturing	Bismarck	\$ 50,000
Baker Boy Bake Shop, Inc.	Dickinson	\$ 800,000
Boost Information Systems, Inc.	Fargo	\$ 300,000
Cargill, Inc.	Fargo	\$ 2,000,000
Dog IDs	Fargo	\$ 87,500
IDA of Moorhead Corporation	Fargo	\$ 150,000
Leikas Group, LLC	Fargo	\$ 50,000
Loyalty Builders, Inc.	Fargo	\$ 300,000
Pedigree Technologies, LLC	Fargo	\$ 750,000
American Defense Ind.	Grand Forks	\$ 140,993
Ideal Aerosmith, Inc.	Grand Forks	\$ 200,000
Midwest Energy Emissions	Grand Forks	\$ 125,000
Next Healthcare, Inc.	Grand Forks	\$ 150,000
Telpro, Inc.	Grand Forks	\$ 25,000
Zachmeier Manufacturing, Inc.	Mandan	\$ 100,000
Accuity Medical International, Inc.	Wahpeton	\$ 150,000
Fixes 4 Kids, Inc.	Wahpeton	\$ 300,000
Streamline, Inc.	Wahpeton	\$ 62,500
BNG Technologies, LLC	West Fargo	\$ 90,000

REGIONAL RURAL REVOLVING LOAN

Tuff-E Manufacturing	Carson	\$ 150,000
Sheyenne Tooling and Mfg, Inc.	Cooperstown	\$ 150,000
Killdeer Mountain Mfg.	Killdeer	\$ 300,000
Firehouse Ribs	Medina	\$ 114,000

CHILD CARE LOAN

Perfect Start Daycare	Bismarck	\$ 25,000
Rachel's Daycare, LLC	Bismarck	\$ 18,000
Tiny Tykes, Inc.	Wahpeton	\$ 56,078

TOTAL \$ 7,114,904

Tuff-E Manufacturing — Carson

REGIONAL RURAL REVOLVING LOAN

A dozen years ago, Peter Reis purchased Tuff-E Manufacturing, a steel fabrication and manufacturing business in Carson. He employed three full-time staff and focused primarily on livestock equipment. Today, he employs 34 full-time employees to handle the manufacturing of hopper bottom grain bins and oil field production tanks.

To keep up with demand, Tuff-E Manufacturing expanded its building space to provide additional room for its fabrication work. The local bank assisted with the start of Tuff-E Manufacturing's expansion, but Reis said his company eventually got into a cash flow crunch and required more funding than what the bank could offer. The bank recommended Reis consider the Development Fund.

"This was a really difficult project to get done, and the people at the Development Fund got it done in a very short period of time and made it come together," Reis said. "To be honest, it was a lifesaver."

The Development Fund not only brought the 7,200 square foot addition to completion, it gave hope to a small-town businessman.

"There are a lot of businesses in North Dakota where people have a lot of vision and drive to make a business expand, but don't have the capital means to do it," Reis said. "I think it's great that North Dakota has something like the Development Fund to help do that, because without it, I don't know that our business would have progressed to where it is today."

Loyalty Builders, Inc. — Fargo

DEVELOPMENT FUND

Loyalty Builders is a marketing analytics software company that allows retailers and other merchants to use data from customer behavior and transactions to help predict customers' future purchases and increase revenue.

Loyalty Builders sells its software across the country, and President Dennis Erdle said the new Fargo location was a great fit for the company to expand its operations due to the talent available from the North Dakota University System and assistance from the Development Fund.

"The Fund gave us the confidence to open here, because to have the support of the North Dakota business community was critical in helping us open the office,"

Erdle said. "It's doing a great job of helping the business climate get going."

The funds allowed Loyalty Builders to set up the Fargo office, hire six employees and market the business. The company offers a variety of advanced marketing techniques to its clients as well as a library of resources to learn more about customer behavior.

Erdle said there is a high demand for these types of analytics, particularly because many customers will experience up to 20 times the return on investment compared to traditional marketing methods.

Tiny Tykes, Inc. — Wahpeton

CHILD CARE LOAN

Justin and Jamie Neppi needed more space for their growing Tiny Tykes daycare business in Wahpeton, so they purchased an additional building increasing their capacity from 18 to 49 children. The move was made possible by the Development Fund which provided working capital, additional equipment and property improvements.

“It provided more opportunity since it helped us to make that next move to the next place,” Justin Neppi said. “Many of our families are on childcare assistance so that income comes in a month behind. We almost have to front payroll for two months before our accounts receivable starts catching up, so having that working capital helps out quite a bit.”

The new location required some renovations, so the Development Fund assisted with costs to install new windows throughout, a more efficient HVAC system and to remove trees on the property.

“It’s nice when parents are complimenting the things and noticing we’re trying to improve the childcare, the building,” Jamie Neppi said. “(After the improvements), the space opened up and it was more welcoming.”

Dog IDs — Fargo

DEVELOPMENT FUND

Dog IDs produces personalized dog collars and custom dog identification tags to promote dog safety and responsible dog ownership. Strictly web-based, the Fargo company offers a large selection of unique designs for man’s best friend.

The Development Fund provided working capital to develop the website and hire additional staff. It also assisted with their marketing efforts and the purchase of equipment to keep up with customer demand.

“Without the Development Fund, we would have had to say no to some of the opportunities we capitalized on in the past year,” said co-owner Clint Howitz. “It supported our growth in general to fulfill the large sales spikes we had at various times.”

Howitz predicts even faster growth ahead, so the funding is critical for continued success.

“A large portion of our expenses are non-tangibles such as web and software development which is extremely difficult to finance,” Howitz said. “Without the Development Fund backing us, we most likely wouldn’t have found the financing we needed via traditional lending institutions, and our business development progression would have been much slower over this last year.”



Next Healthcare, Inc. — Grand Forks

DEVELOPMENT FUND

When seeking the perfect location for a biotechnology service, founder Vin Singh chose Grand Forks, opening Next Healthcare, Inc. in early March. Singh said North Dakota's central location, low costs and access to the University of North Dakota's excellent bioscience program and medical school made the decision an easy one. By providing tissue and cell storage solutions to the general public, Next Healthcare, Inc. utilizes technology to allow people to potentially treat their diseases or conditions with their own cells.

Singh has received a good response to his company's services since it became fully operational in July. The Development Fund assisted Next Healthcare, Inc. with lab operating expenses.

"We had to set up a GMP [Good Manufacturing Practice] lab, which is the highest quality standard," Singh said. "That takes time, people and resources to make happen. The funds enabled us to launch our lab operation and commercialize our service."

Next Healthcare, Inc. hopes to expand its network of doctors and customer base, as well as lab operations.

"Currently we have a network of doctors that offers the service to their patients," Singh said. "Now we're starting to go directly to consumers, educating them about the service and its benefits so they can then go to their doctor and ask them to offer it as a service to their other patients."

Firehouse Ribs — Medina

REGIONAL RURAL REVOLVING LOAN

Firehouse Ribs may be tucked away in a small town, but business is far from small. The Medina-based production facility and restaurant sells smoked ribs and pulled pork along with their signature barbeque sauces nationwide.

"I'm a small town girl and I fall in love with small towns," said co-owner Tracy Frank. "Then I get there and try to work with them and do as much as I possibly can and I thought Medina would be a good place to do that."

There is no doubting her commitment as she and fellow owner Robert Heier commute 80 miles each day from Valley City to run the business. Medina's old meat locker plant was a perfect fit, even at only 970 square feet – the smallest USDA-inspected plant in the state.

"We push a lot of product out of here," Frank said. "The Development Fund allowed us to double and triple up on equipment and now we're at almost one and a half times our normal production, so instead of making 3,000 pounds per day, we can almost do 7,000."

The business has even built a relationship with Walmart. The retail giant currently carries Firehouse Ribs products within the tri-state area, but by January the label will go nationwide. It's a big leap from where Frank and Heier stood prior to the Development Fund loan. "It was nerve wracking for a while because if we would not have been able to expand, we would have been shutting our doors," Frank said. "We would have been just another closed-down small business."



Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

We have audited the accompanying basic financial statements of the North Dakota Development Fund, Inc. a component unit of the State of North Dakota, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the North Dakota Development Fund, Inc. are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the financial statements of the State of North Dakota that is attributable to the transactions of North Dakota Development Fund, Inc. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2012 and 2011, the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Dakota Development Fund, Inc. as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2012 on our consideration of the North Dakota Development Fund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The accompanying supplementary information on pages 17 through 33 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Eric Bailly LLP".

Bismarck, North Dakota
October 25, 2012

The discussion and analysis of the financial performance of the North Dakota Development Fund that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2012. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

Total revenue increased by \$910,328 (93.20%) to \$1,887,396. Operating revenues decreased by \$62,572 (6.95%) to \$835,092. Cash flow increased by \$2,801,754 (79.25%) to \$6,336,733. The Fund collected \$4,832,119 in principal payments in 2012, which was an increase of \$2,424,208 (200%) from 2011. The increase in total revenues and operating revenues was attributable to additional payouts of loans on the books of the North Dakota Development Fund.

The Development Fund received \$162,738 in dividend payments in 2012 from equity investments made, an increase from the \$109,128 received in dividend payments in 2011. The increase was attributable to additional payments received in dividend payments to the Development Fund in 2012 as compared to 2011.

General and administrative expense increased by \$22,923 (5.76%) from \$397,944 in 2011 to \$420,867 in 2012. The increase in administrative expense was attributable to an increase in salary expense and repo expense from 2011 to 2012.

Operating loss before non-operating revenues and expenses increased by (\$218,614) from (\$16,011) in 2011 to (\$234,625) in 2012. The decline in the operating loss in 2012 was attributable to an increase in reserve for bad debt expense and an increase in general and administrative expense in 2012 as compared to 2011 in addition to the reduction in operating revenues from \$897,664 in 2011 to \$835,092 in 2012.

Interest income on deposits decreased by \$27,100 (34.50%) from \$79,404 received in 2011 to \$52,304 received in 2012. The decrease was the result of decreased interest rates received on the investments being made in certificates of deposit at the Bank of North Dakota.

Change in net assets increased by \$754,286 from \$63,393 in 2011 to \$817,679 in 2012. The increase was attributable to the Development Fund receiving an appropriation from the North Dakota Legislature in the amount of \$1 million dollars for a new funding program called the Small Business Technology Program in July of 2011.

Net assets increased by \$817,679 from \$23,142,094 in 2011 to \$23,959,773 in 2012. The increase was attributable to the Development Fund receiving an appropriation from the North Dakota Legislature in the amount of \$1 million dollars for a new funding program called the Small Business Technology Program.

Noncurrent net assets (excluding equipment) increased by \$1,540,281 from \$7,841,863 in 2011 to \$9,382,144 in 2012. The noncurrent assets consist of the Development Fund's loan and equity investments. The equity investments made decreased by \$815,502 from 2011 to 2012. The equity investments that were charged off during 2012 were \$662,324 as compared to \$370,800 in 2011. The loan investments made increased by \$2,525,778 from 2011 to 2012. The loan investments that were charged off during 2012 were \$280,547 as compared to \$228,327 in 2011. The Development Fund saw a decline in equity requests in 2012, but saw an increase in requests for loans. Also included in the loan investment balance were loans closed under the new Child Care Loan Program created by legislative intent and an appropriation from the legislative session in 2009 and became effective July 1, 2009.

Interest receivable on deposits and loans decreased by (\$3,879) to \$70,007. The receivable remained stable in 2012 due to the continued improved monitoring of past due accounts and not having to put additional accounts on non-accrual.

Cash and cash equivalents increased by \$7,052,795 (250%) to \$11,703,160 (cash balance is before loan and investment commitments). The increase in cash and cash equivalents was attributable to less dollars being invested in certificate of deposits due to the reduction in CD rates and wanting to put the funds to work in primary sector businesses in the State of North Dakota. The investment account (which includes certificate of deposit investments) decreased by \$8,235,534 from \$9,236,500 in 2011 to \$1,000,966 in 2012.

The Development Fund invests their excess funds into longer-term deposits for a higher rate of return to coincide with the funding commitments made by the Development Fund to companies for loans and equity investments, which are not required to be funded in the short-term. But, due to the low rate of interest being offered on certificate of deposits on a longer term, the Development Fund has kept the excess funding liquid in saving accounts and putting the funds to work in loan and equity investments to primary sector businesses in the State of North Dakota.

Twenty-eight projects were funded totaling \$7,114,904.

Required Financial Statements

The discussion and analysis are intended to serve as an introduction to the Development Fund's financial statements. The financial statements of the Development Fund provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net assets. It also serves as a basis for analysis of the soundness and liquidity of the Development Fund. The statement of Revenues, Expenses and Changes in Net Assets summarize the Development Fund's operating performance for the year. The statements of Cash Flows summarize the flow of cash through the Development Fund as it conducts its business.

Condensed Balance Sheet June 30, 2012 and 2011

Assets	2012	2011	2010
Current assets	\$ 15,841,282	\$ 16,563,884	\$ 17,207,305
Noncurrent assets	9,382,144	7,841,863	7,234,496
Total assets	<u>\$ 25,223,426</u>	<u>\$ 24,405,747</u>	<u>\$ 24,441,801</u>
Net Assets			
Current liabilities	\$ 1,263,653	\$ 1,263,653	\$ 1,363,100
Unrestricted	23,959,773	23,142,094	23,078,701
Total net assets	<u>23,959,773</u>	<u>23,142,094</u>	<u>23,078,701</u>
Total liabilities and net assets	<u>\$ 25,223,426</u>	<u>\$ 24,405,747</u>	<u>\$ 24,441,801</u>

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits with the Bank of North Dakota and are included in the current assets section of the balance sheet. Additional discussion of cash and cash equivalents can be found in Note 2 to the financial statements.

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Notes 4 and 5 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the balance sheet. Additional analysis of loans receivable can be found in Notes 6 and 7.

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the Year Ended June 30, 2012 and 2011

	2012	2011	2010
Operating Revenues			
Interest income on loans	\$ 584,339	\$ 584,757	\$ 660,760
Dividend income	162,738	109,128	149,679
Gain on sale of investment	8,214	93,542	-
Other	79,801	110,237	55,118
	<u>835,092</u>	<u>897,664</u>	<u>865,557</u>
Nonoperating Revenue			
State appropriations	1,000,000	-	-
Interest income on deposits	52,304	79,404	91,968
	<u>1,052,304</u>	<u>79,404</u>	<u>91,968</u>
Total Revenue	<u>1,887,396</u>	<u>977,068</u>	<u>957,525</u>

North Dakota Development Fund, Inc.
Management's Discussion and Analysis
June 30, 2012

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Expenses			
General and administrative	420,867	397,944	386,615
Depreciation expense	-	843	766
Bad debt expense	648,850	514,888	1,121,985
	<u>1,069,717</u>	<u>913,675</u>	<u>1,509,366</u>
Change in Net Assets	817,679	63,393	(551,841)
Net Assets, Beginning of Year	<u>23,142,094</u>	<u>23,078,701</u>	<u>23,630,542</u>
Net Assets, End of Year	<u><u>\$ 23,959,773</u></u>	<u><u>\$ 23,142,094</u></u>	<u><u>\$ 23,078,701</u></u>

North Dakota Development Fund, Inc.
Balance Sheets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 11,703,160	\$ 4,650,365
Interest receivable on deposits and loans	70,007	73,886
Investments	1,000,966	9,236,500
Current portion of loans receivable	<u>3,067,149</u>	<u>2,603,133</u>
Total current assets	<u>15,841,282</u>	<u>16,563,884</u>
Noncurrent Assets		
Loans receivable, net of current portion	<u>9,382,144</u>	<u>7,841,863</u>
Total assets	<u><u>\$ 25,223,426</u></u>	<u><u>\$ 24,405,747</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accrued expenses	\$ 13,653	\$ 13,653
Due to state	<u>1,250,000</u>	<u>1,250,000</u>
Total current liabilities	<u>1,263,653</u>	<u>1,263,653</u>
Net Assets		
Unrestricted	<u>23,959,773</u>	<u>23,142,094</u>
Total net assets	<u>23,959,773</u>	<u>23,142,094</u>
Total liabilities and net assets	<u><u>\$ 25,223,426</u></u>	<u><u>\$ 24,405,747</u></u>

See Notes to Financial Statements

North Dakota Development Fund, Inc.
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Interest income on loans	\$ 584,339	\$ 584,757
Dividend income	162,738	109,128
Gain on sale of investment	8,214	93,542
Other	79,801	110,237
	<u>835,092</u>	<u>897,664</u>
Operating Expenses		
General and administrative	420,867	397,944
Depreciation expense	-	843
Bad debt expense	648,850	514,888
	<u>1,069,717</u>	<u>913,675</u>
Operating Loss	(234,625)	(16,011)
Nonoperating Revenue		
State appropriations	1,000,000	-
Interest income on deposits and investments	52,304	79,404
	<u>1,052,304</u>	<u>79,404</u>
Change in Net Assets	817,679	63,393
Net Assets, Beginning of Year	<u>23,142,094</u>	<u>23,078,701</u>
Net Assets, End of Year	<u>\$ 23,959,773</u>	<u>\$ 23,142,094</u>

See Notes to Financial Statements

North Dakota Development Fund, Inc.

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Other receipts	\$ 226,504	\$ 386,666
Payments to suppliers	(420,867)	(447,691)
Net Cash used for Operating Activities	(194,363)	(61,025)
Investing Activities		
Interest received on cash and cash equivalents	672,985	689,407
Purchase of equipment	-	(843)
Purchase of equity investments	(991,668)	(87,500)
Proceeds from the sale of equity investments	617,218	150,000
Purchase of investments	(1,000,966)	(13,794,750)
Sale of investments	9,228,286	12,575,048
Disbursements of business loans	(7,110,816)	(3,830,111)
Principal payments received on business loans	4,832,119	2,407,911
Net Cash provided by (used for) Investing Activities	6,247,158	(1,890,838)
Non-Capital and Related Financing Activities		
Paydown of appropriations	-	(49,700)
Proceeds from state appropriations	1,000,000	-
Net Cash provided by (used for) Financing Activities	1,000,000	(49,700)
Net Change in Cash and Cash Equivalents	7,052,795	(2,001,563)
Cash and Cash Equivalents at Beginning of Year	4,650,365	6,651,928
Cash and Cash Equivalents at End of Year	\$ 11,703,160	\$ 4,650,365

See Notes to Financial Statements

North Dakota Development Fund, Inc.

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	\$ (234,625)	\$ (16,011)
Adjustments to reconcile operating		
loss to net cash from operating activities		
Depreciation	-	843
Decrease in accounts payable	-	(49,747)
Gain on sale of investment	8,214	93,542
Allowance for doubtful loan receivables	274,400	577,388
Allowance for realized loss on investments	374,450	(62,500)
Reclassification of interest and dividend income	(616,802)	(604,540)
Net Cash Used for Operating Activities	<u>\$ (194,363)</u>	<u>\$ (61,025)</u>
Supplemental Schedule of Noncash Activities		
Loans receivable written off	\$ 280,547	\$ 228,327
Equity investments written off	\$ 662,324	\$ 370,800

See Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Activities

The North Dakota Development Fund, Inc. (the Corporation) was established pursuant to Chapter 10-30.3 of the North Dakota Century Code as amended by the passage of Senate Bill 2058 during the 1991 legislative session. The Corporation is a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

The Corporation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain corporate functions or activities.

The following activities are used by the Corporation:

Development Fund

The Development Fund is used to account for fund investments, including equity positions, loans, loan guarantees, and other innovative financing mechanisms for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

Regional Rural Development Revolving Loan Fund

The Regional Rural Development Revolving Loan Fund is used to account for fund investments including equity positions, loans, loan guarantees, or debt financing on a matching basis to new or expanding primary sector businesses in rural areas.

Small Business Technology Program

The Small Business Technology Fund is used to provide matching investments to startup technology-based businesses.

Child Care Loan Program

The Child Care Loan Program is used to account for fund investments including loans and loan guarantees for new or expanding child care facilities in North Dakota.

The Corporation may form additional corporations, partnerships or other forms of business associations in order to further its mission.

The Director of the Department of Commerce Division of the Economic Development and Finance shall appoint the Chief Executive Officer of the Corporation. All investments, contracts, partnerships, limited liability companies, and business transactions of the Corporation are the responsibility of the Chief Executive Officer and the eight-member Board of Directors, who are appointed by the Governor.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, the Corporation should include all component units over which the Corporation exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Corporation. GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14, further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Corporation or its constituents, and
- The Corporation or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Corporation is entitled to, or can otherwise access, are significant to the Corporation.

Based upon criteria set forth in GASB No. 14 and No. 39, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

Basis of Accounting

The Corporation is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Corporation operates primarily with appropriations from the State of North Dakota's general fund.

As a proprietary fund type, the Corporation accounts for its transactions using the accrual basis of accounting. Revenues are recognized for its transactions when they are earned, and expenses are recognized when they are incurred.

The Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard-setting body for establishing generally accepted accounting principles for governmental entities. In accordance with Governmental Accounting Standards Board Statement No. 20, the Corporation follows all applicable GASB Pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net Assets.

Concentration of Credit Risk

Loans receivable consist primarily of loans to new or expanding businesses in North Dakota or relocating businesses to North Dakota. The Corporation performs credit evaluations and maintains a security interest until related loans are collected.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenue, expenses, and changes in fund net assets.

Equity Investments

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 4).

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Expense Allocation

The Development Fund pays all expenses of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of equity investments.

Fixed Assets and Depreciation

All fixed assets are recorded in the accompanying financial statements at cost. Donated fixed assets are stated at fair market value at the time of donation. Equipment with a cost greater than \$5,000 is capitalized and reported in the accompanying financial statements. The Corporation's fixed assets are being depreciated on a straight-line basis over estimated useful life of three years.

Loans

Loans are reported at their outstanding unpaid principal adjusted for charge-offs and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 to 120 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance For Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to a recovery account.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

Note 2 - Deposits and Investments

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2012, the Corporation had the following cash and investments:

	Fair Value	Less Than One Year
Cash		
Bank of North Dakota	\$ 11,703,160	\$ 11,703,160
Investments		
Certificates of deposit		
Bank of North Dakota	1,000,966	1,000,966
	<u>\$ 12,704,126</u>	<u>\$ 12,704,126</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments. At June 30, 2012, the schedule above shows the investments by investment type, amount and the duration.

Cash and investments were recorded on the statement of net assets as follows:

	Balance
Cash and cash equivalents	\$ 11,703,160
Investments	1,000,966
	<u>\$ 12,704,126</u>

Custodial and Concentration of Credit Risk

For deposits and investments, the custodial credit risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover collateral securities that are in possession of an outside party. The Corporation's deposits are uncollateralized. All of the Corporation's deposits are with the Bank of North Dakota.

Note 3 - Interest Receivable

Interest receivable at June 30, 2012 and 2011 is as follows:

	2012	2011
Interest receivable from loans	\$ 70,007	\$ 73,886

Note 4 - Equity Investments

Equity investments in business concerns as of June 30, 2012 and 2011 are as follows:

	2012	2011
Development Fund	\$ 3,114,165	\$ 3,922,830
Rural Development Revolving Loan Fund	1,164,653	1,171,490
	4,278,818	5,094,320
Valuation allowance - Other than temporary impairment	(4,278,818)	(5,094,320)
	\$ -	\$ -

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

The Corporation acquired its investment by direct purchase from the issuer under investment representations, and the Board of Directors valued the securities on the premise that they may not be sold without registration under the Securities Act of 1933. The price of securities purchased was determined by direct negotiation between the Corporation and the seller.

Note 5 - Equity Investments – Valuation Allowance

Changes in the valuation allowance for equity investments as of June 30, 2012 and 2011 are as follows:

	2012	2011
Balance, beginning of year	\$ 5,094,320	\$ 5,684,125
Provision for equity investment losses	374,450	(62,500)
Transfers	(527,628)	(156,505)
Equity investments charged off	(662,324)	(370,800)
	<u> </u>	<u> </u>
Balance, end of year	<u>\$ 4,278,818</u>	<u>\$ 5,094,320</u>

Note 6 - Loans Receivable

Loans receivable at June 30, 2012 and 2011 are as follows:

	2012	2011
Development Fund	\$ 11,755,681	\$ 9,134,747
Rural Development Revolving Loan Fund	5,428,604	5,528,147
Child Care Loan Program	794,326	789,939
	<u>17,978,611</u>	<u>15,452,833</u>
Allowance for loan losses	(5,529,318)	(5,007,837)
	<u> </u>	<u> </u>
Loans receivable, net of allowance for loan losses	12,449,293	10,444,996
Less: current portion of loans receivable	3,067,149	2,603,133
	<u> </u>	<u> </u>
Loans receivable, net of current portion	<u>\$ 9,382,144</u>	<u>\$ 7,841,863</u>

Note 7 - Allowance for Loan Losses

Changes in the allowance for loan losses as of June 30, 2012 and 2011 are as follows:

	2012	2011
Balance, beginning of year	\$ 5,007,837	\$ 4,502,271
Provision for loan losses	274,400	577,388
Transfers	527,628	156,505
Loans charged off	(280,547)	(228,327)
	<u> </u>	<u> </u>
Balance, end of year	<u>\$ 5,529,318</u>	<u>\$ 5,007,837</u>

Note 8 - Equipment

A statement of changes in fixed assets for the years ended June 30, 2012 and 2011 is as follows:

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Furniture and equipment	\$ 10,095	\$ -	\$ -	\$ 10,095
Computer software	78,188	-	-	78,188
Accumulated depreciation	(88,283)	-	-	(88,283)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Balance 06/30/10	Additions	Deletions	Balance 06/30/11
Furniture and equipment	\$ 10,095	\$ -	\$ -	\$ 10,095
Computer software	77,345	843	-	78,188
Accumulated depreciation	(87,440)	(843)	-	(88,283)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 9 - Due to State

In 2011, the State of North Dakota appropriated funds to the North Dakota Development Fund to develop a child care loan program for the purpose of providing loans to new and expanding child care facilities within the state of North Dakota. The program was extended in the last legislative session through June 30, 2013, at which time it expires. On that date, the appropriation amount is set to be returned to the state. As of June 30, 2012 and 2011, \$1,250,000 and \$1,250,000 is due back to the state, respectively.

Note 10 - State Appropriation

During the year ended June 30, 2012 the North Dakota Development Fund received \$1,000,000 for a new funding program called the Small Business Technology Program.

Note 11 - Commitments and Contingencies

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2012 and 2011, for which funds have not been disbursed or written agreements entered into in the approximate amount of \$1,036,244 and \$3,362,579.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2012 and 2011, for which funds have not been disbursed or written agreements entered into in the approximate amount of \$757,095 and \$1,137,666.

Child Care Loan Program

The Board of Directors has approved loans at June 30, 2012 and 2011, for which funds have not been disbursed or written agreements entered into in the approximate amount of \$3,363 and \$25,867.

Note 12 - Risk Management

North Dakota Development Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

The 1995 legislative session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. The North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12 month period. The State Bonding Fund currently provides the Commerce Department with blanket fidelity bond coverage in the amount of \$100,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Workforce Safety and Insurance, (WSI) an Enterprise Fund of the State of North Dakota. WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

North Dakota Development Fund, Inc.
Combining Balance Sheets
June 30, 2012 and 2011

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Small Business Technology Program	2012	2011
Assets						
Current Assets						
Cash and cash equivalents	\$ 6,247,295	\$ 4,962,446	\$ 493,419	\$ -	\$ 11,703,160	\$ 4,650,365
Interest receivable on deposits and loans	37,623	32,384	-	-	70,007	73,886
Investments	-	-	-	1,000,966	1,000,966	9,236,500
Current portion of loans receivable	2,005,523	926,119	135,507	-	3,067,149	2,603,133
Intercompany receivable (payable)	(5,229)	5,229	-	-	-	-
Total current assets	<u>8,285,212</u>	<u>5,926,178</u>	<u>628,926</u>	<u>1,000,966</u>	<u>15,841,282</u>	<u>16,563,884</u>
Noncurrent Assets						
Loans receivable, net of current portion	<u>6,951,200</u>	<u>2,216,744</u>	<u>214,200</u>	<u>-</u>	<u>9,382,144</u>	<u>7,841,863</u>
Total assets	<u>\$ 15,236,412</u>	<u>\$ 8,142,922</u>	<u>\$ 843,126</u>	<u>\$ 1,000,966</u>	<u>\$ 25,223,426</u>	<u>\$ 24,405,747</u>
Liabilities and Net Assets						
Current Liabilities						
Accrued expenses	\$ 13,653	\$ -	\$ -	\$ -	\$ 13,653	\$ 13,653
Due to state	-	-	1,250,000	-	1,250,000	1,250,000
Total liabilities	<u>13,653</u>	<u>-</u>	<u>1,250,000</u>	<u>-</u>	<u>1,263,653</u>	<u>1,263,653</u>
Net Assets						
Unrestricted	<u>15,222,759</u>	<u>8,142,922</u>	<u>(406,874)</u>	<u>1,000,966</u>	<u>23,959,773</u>	<u>23,142,094</u>
Total net assets	<u>15,222,759</u>	<u>8,142,922</u>	<u>(406,874)</u>	<u>1,000,966</u>	<u>23,959,773</u>	<u>23,142,094</u>
Total liabilities and net assets	<u>\$ 15,236,412</u>	<u>\$ 8,142,922</u>	<u>\$ 843,126</u>	<u>\$ 1,000,966</u>	<u>\$ 25,223,426</u>	<u>\$ 24,405,747</u>

North Dakota Development Fund, Inc.
Combining Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Small Business Technology Program	2012	2011
Operating Revenues						
Interest income on loans	\$ 446,117	\$ 119,030	\$ 19,192	\$ -	\$ 584,339	\$ 584,757
Dividend income	130,275	32,463	-	-	162,738	109,128
Gain on sale of investment	8,214	-	-	-	8,214	93,542
Other	71,186	7,972	643	-	79,801	110,237
	<u>655,792</u>	<u>159,465</u>	<u>19,835</u>	<u>-</u>	<u>835,092</u>	<u>897,664</u>
Operating Expenses						
General and administrative	420,867	-	-	-	420,867	397,944
Depreciation expense	-	-	-	-	-	843
Bad debt expense	581,342	69,830	(2,322)	-	648,850	514,888
	<u>1,002,209</u>	<u>69,830</u>	<u>(2,322)</u>	<u>-</u>	<u>1,069,717</u>	<u>913,675</u>
Operating (Loss) Income	<u>(346,417)</u>	<u>89,635</u>	<u>22,157</u>	<u>-</u>	<u>(234,625)</u>	<u>(16,011)</u>
Nonoperating Revenue (Expense)						
Interest income on deposits and investments	31,210	19,542	586	966	52,304	79,404
State appropriations	-	-	-	1,000,000	1,000,000	-
	<u>31,210</u>	<u>19,542</u>	<u>586</u>	<u>1,000,966</u>	<u>1,052,304</u>	<u>79,404</u>
Change in Net Assets	<u>(315,207)</u>	<u>109,177</u>	<u>22,743</u>	<u>1,000,966</u>	<u>817,679</u>	<u>63,393</u>
Net Assets, Beginning of Year	<u>15,537,966</u>	<u>8,033,745</u>	<u>(429,617)</u>	<u>-</u>	<u>23,142,094</u>	<u>23,078,701</u>
Net Assets, End of Year	<u>\$ 15,222,759</u>	<u>\$ 8,142,922</u>	<u>\$ (406,874)</u>	<u>\$ 1,000,966</u>	<u>\$ 23,959,773</u>	<u>\$ 23,142,094</u>

North Dakota Development Fund, Inc.
Combining Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Small Business Technology Program	2012	2011
Operating Activities						
Other receipts (payments)	\$ 217,889	\$ 7,972	\$ 643	\$ -	\$ 226,504	\$ 386,666
Payments to suppliers	(420,867)	-	-	-	(420,867)	(447,691)
Net Cash (used for) Provided by Operating Activities	(202,978)	7,972	643	-	(194,363)	(61,025)
Non-Capital Financing Activities						
Paydown of appropriations	-	-	-	-	-	(49,700)
Proceeds from state appropriations	-	-	-	1,000,000	1,000,000	-
Net Cash (used for) Provided by Non-Capital Financing Activities	-	-	-	1,000,000	1,000,000	(49,700)
Investing Activities						
Interest and dividends received	481,949	170,292	19,778	966	672,985	689,407
Purchase of equipment	-	-	-	-	-	(843)
Purchase of equity investments	(991,668)	-	-	-	(991,668)	(87,500)
Proceeds from the sale of equity investments	612,764	4,454	-	-	617,218	150,000
Purchase of investments	-	-	-	(1,000,966)	(1,000,966)	(13,794,750)
Sale of investments	5,947,786	3,280,500	-	-	9,228,286	12,575,048
Disbursements of business loans	(6,283,744)	(727,994)	(99,078)	-	(7,110,816)	(3,830,111)
Principal received on business loans	4,182,858	554,570	94,691	-	4,832,119	2,407,911
Net Cash (used for) Provided by Investing Activities	3,949,945	3,281,822	15,391	(1,000,000)	6,247,158	(1,890,838)
Net Change in Cash and Cash Equivalents	3,746,967	3,289,794	16,034	-	7,052,795	(2,001,563)
Cash and Cash Equivalents, Beginning of Year	2,500,328	1,672,652	477,385	-	4,650,365	6,651,928
Cash and Cash Equivalents, End of Year	\$ 6,247,295	\$ 4,962,446	\$ 493,419	\$ -	\$ 11,703,160	\$ 4,650,365

North Dakota Development Fund, Inc.

Combining Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Loan Program	Small Business Technology Program	2012	2011
Reconciliation of Operating (Loss) Gain to Net Cash used in Operating Activities						
Operating (loss) gain	\$ (346,417)	\$ 89,635	\$ 22,157	\$ -	\$ (234,625)	\$ (16,011)
Adjustments to reconcile operating (loss) gain to net cash from operating activities						
Depreciation	-	-	-	-	-	843
Increase in accounts payable	-	-	-	-	-	(49,747)
Change in intercompany receivable (payable)	-	-	-	-	-	-
Gain on sale of investment	8,214	-	-	-	8,214	93,542
Allowance for doubtful loan receivables	202,438	74,284	(2,322)	-	274,400	577,388
Allowance for realized loss on investments	378,904	(4,454)	-	-	374,450	(62,500)
Reclassification of interest and dividend income	(446,117)	(151,493)	(19,192)	-	(616,802)	(604,540)
Net Cash (used in) Provided by Operating Activities	<u>\$ (202,978)</u>	<u>\$ 7,972</u>	<u>\$ 643</u>	<u>\$ -</u>	<u>\$ (194,363)</u>	<u>\$ (61,025)</u>
Supplemental Schedule of Noncash Activities						
Loan receivable written off	\$ 3,038	\$ 277,509	\$ -	\$ -	\$ 280,547	\$ 228,327
Equity investments written off	662,324	-	-	-	662,324	370,800



NORTH DAKOTA DEVELOPMENT FUND

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